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'Rich man's tax' now is taking bigger bites from middle class

By Jerry Zremski

WASHINGTON — Tuesday is the day taxpayers dread – and a quirk in the tax code is giving more and more area residents a costly additional reason to dread it.

The Alternative Minimum Tax was instituted in 1969 to prevent wealthy taxpayers from dodging their fair share, but it has not been adjusted for inflation since then. As a result, the tax is now ensnaring middle-income Americans in a paralleluniverse tax system where levies are higher and many deductions don't count.

And the bite is particularly severe in places such as upstate New York, where federal deductions are expected to ease the burden of notoriously high state and local taxes.

A total of 12,469 families in New York's eight westernmost counties saw their taxes increase an average of $3,793 in 2004 because of the AMT, the nonpartisan Tax Foundation reported. And local financial planners said they have noticed a marked uptick in the number of local residents falling prey to the additional tax since then.

"It started about two years ago that I was seeing more and more couples with an income in the $100,000 range, which is not that much for two working people, getting hit with this," said Richard K. Schroeder, a financial planner in Amherst. "I pay it myself, and it's a real bite."

Congress is noticing that fact and since 2001 has repeatedly but temporarily expanded the exemption claimed under the AMT in order to limit the number of people subject to the extra tax.

Those temporary "patches" have had some impact. The number of families subject to the tax more than doubled between 2000 and 2005 but in 2006 appeared to level off at 3.5 million, the Urban Institute- Brookings Institution Tax Policy Center reported.

And now Rep. Thomas M. Reynolds, R-Clarence, is taking the lead in pushing another temporary fix. He calls the AMT "a stealth tax, which creeps into middle-class America."

"I'm certainly optimistic that we'll be able to get another oneyear patch," said Reynolds, a senior member of the tax-writing Ways and Means Committee.

Reynolds is optimistic for a simple reason: Passing another one-year fix is politically preferable to effectively forcing a tax increase on tens of millions of Americans.

Urban-Brookings reports that without another ATM patch, the number of families subject to the AMT would multiply more than sixfold, to 23.4 million, when people file their 2007 tax returns a year from now.

Chalk it all up to sloppy lawmaking back in 1969 and an unwillingness in Congress to permanently fix the problem ever since.

Back when it was created, the AMT was originally aimed at forcing 155 superwealthy families from using tax shelters to skirt the system.

"It was like pulling out a howitzer to kill a mosquito," said Williamsville financial planner Anthony J. Ogorek.

Not surprisingly, there was plenty of collateral damage. The AMT hit 20,000 families the year it took effect, and because it was not adjusted for inflation, that number has grown exponentially ever since.

The tax was not designed in a simple way that would require people to start paying more once their income hits a certain level. Instead, it's the amount of exemptions and deductions that you claim on your regular tax return that can push you into AMT Land.

The greater your exemptions and deductions, the more likely it is that you will be forced to calculate your taxes twice – once the regular way and once under the AMT, which is set at either 26 or 28 percent, depending on income.

And if your AMT calculation is higher, you have to pay the difference between that and your regular tax bill – in addition, of course, to your regular tax bill.

Because you cannot deduct state and local taxes under the AMT, residents of high-tax states are especially vulnerable to the AMT's additional levy.

"This is the worst tax" for middle-income New Yorkers, said Sen. Charles E. Schumer, D-N.Y., who is pushing for a temporary tax fix in the Senate. "Anyone making over $50,000 can get clobbered by this, so this is not just a rich man's tax at all."

Why, then, hasn't Congress permanently fixed the problem? Because doing so would be hugely expensive. The Tax Policy Center estimates that it would cost anywhere from $800 billion to $1.5 trillion over 10 years. "I see no easy way they could fix it," Schroeder said.

But both Reynolds and Schumer, as well as House Ways and Means Committee Chairman Charles B. Rangel, DN. Y., said a permanent fix is necessary. "Many of us on both sides of the aisle have made it clear that we want to tackle this," Reynolds said.

Many tax experts say a total revision of the tax code — last done in 1986 — would be the most likely way to find the revenue to make up for the elimination of the AMT. But Schumer said Congress could find most of the money to pay for that elimination through the closing of tax loopholes and a crackdown on uncollected taxes.

Schumer said a serious effort to fix the AMT is likely in 2008, an election year.

"People will want to get rid of it," he said. And for an obvious reason.

"It's a misnomer: It's actually an alternative maximum tax," Ogorek said. "It's an alternate universe of pain."